

1960 annual report

for the year ended January 31, 1961

INTERSTATE DEPARTMENT STORES, INC.





Gift Department



Ladies' Ready-to-Wear



Men's Shirts



Toy Department

Discount store operations are accounting for a rapidly increasing percentage of Interstate's sales volume, and last year contributed approximately half of total sales. Shown here and on the cover are scenes from one of the new Topps stores, located in Fairfield, Connecticut. Typical of other Interstate stores, Topps is a modern, self-service operation, featuring a broad selection of quality goods in both soft and hard lines, in attractive, air-conditioned surroundings. Through the elimination of fringe services and expenses, stores such as this are able to offer customers quality merchandise at prices substantially below those prevailing in conventional department stores.



Girls' Ready-to-Wear



Sports



Hardware

comparative

HIGHLIGHTS

	Years Ended January 31	
	1961	1960
Sales	\$114,311,355	\$90,315,963
Net Income Before Taxes	2,375,167	2,315,064
Net Income After Taxes	1,490,804	1,394,302
Earnings Per Share*	4.13	4.02
Dividends Per Share: Cash	1.20	1.20
Stock	5% **	3%
Long Term Debt	3,336,816	3,749,235
Working Capital	10,661,936	12,798,724
Stockholders' Equity	18,917,757	17,051,348
Stockholders' Equity Per Share	50.75	48.92
Current Ratio	1.7 to 1	2.6 to 1

* Based on average number of shares outstanding after giving effect to all stock dividends distributed through January 31, 1961.

** Declared January 4th, 1961, paid February 15th, 1961.

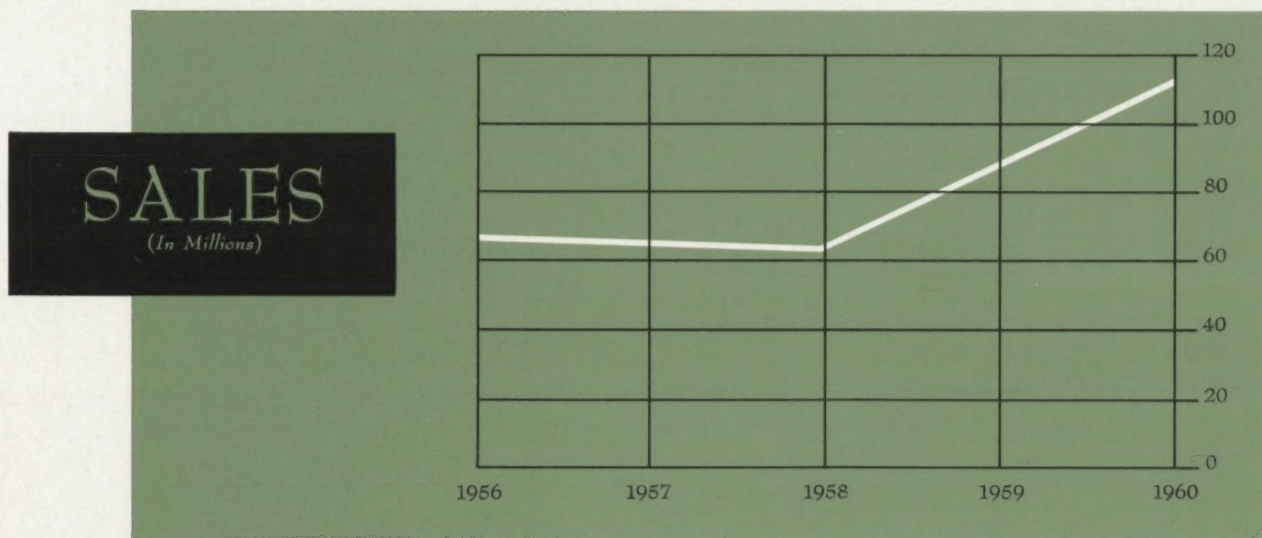
*to the
stockholders:*

Sales for the fiscal year ended January 31, 1961 totalled \$114,300,000. This is a record-high for the Company, and represents an increase of 27 per cent over the previous year's sales of \$90,300,000. The increase was due entirely to the Company's expansion in the discount retail field.

Net income rose to \$1,490,800, equal to \$4.13 a share based on the average number of shares outstanding. In the prior year, Interstate earned \$1,394,300, equal to \$4.02 a share on the average shares outstanding for that period after giving effect to all stock dividends distributed through January 31, 1961.

The effect of the Company's expansion in the discount field was not fully reflected in the reported operating results. This is because the sales and earnings of the stores opened or acquired during the year were included only from the dates of their opening or from the effective dates of their acquisition. The current sales rates of the stores now comprising the chain can be projected at an annual figure of approximately \$160,000,000.

During the year Interstate paid four cash dividends of 30 cents a share, making a total of \$1.20 for the year. In addition, a stock dividend of 5 per cent was declared, which was valued, for accounting purposes, at \$49.17 a share, based on the closing



price of the Company's stock the day prior to its declaration.

Shortly prior to the publication of this report, the Board of Directors approved a 3-for-1 split of the Company's stock. It was announced at that time that the management of the Company would recommend that a new dividend rate, somewhat higher than the present rate, be set at the next dividend meeting which will be held in July. The Board of Directors also expressed the intention to continue the Company's policy of year-end consideration of supplementing cash dividends with stock dividends.

One of the more important developments last year was the acquisition of individually owned discount stores operating in Connecticut, Illinois, Massachusetts, New York and Pennsylvania. These stores are currently doing an annual business at the rate of \$40 million.

Another major move was the opening of a third White Front store in the greater Los Angeles area. Located in Anaheim, California, adjacent to Disneyland, it is the largest discount center in the Company's chain, with 110,000 square feet of floor space and sales potential of \$15 million annually.

Progress was also made in adding to the Family Fair stores, also in the discount field. Three Family Fairs were opened in Louisville, Kentucky, two of which were new stores located in suburban shopping centers, and the third was a replacement of a downtown store.

Interstate's discount centers produced sales of approximately \$56 million last year, or about half of the Company's total, and are presently operating at an annual rate in excess of \$100 million. All of these stores were added to the Interstate chain within the last two years.

The Company is encouraged with the progress it has made thus far in the discount field and is moving ahead with plans for further expansion in this direction.

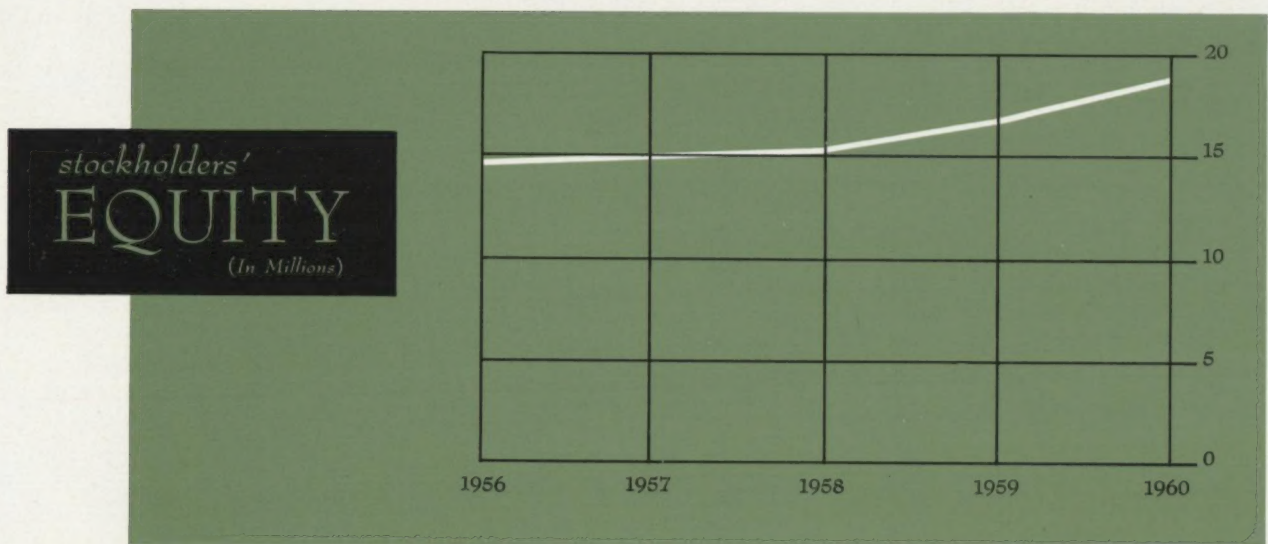
Early this spring the Company opened a discount store in La Grange, on the outskirts of Chicago, under the Topps name.

It was the second Topps store in the greater Chicago area. The first was opened about a year ago in Niles, Illinois, and is now one of our key discount stores. A third Topps unit in the Chicago area was opened in Arlington Heights, Illinois on April 26th. A fourth store will be opened in Highland, Indiana, which is also within the greater Chicago area, this fall, and a fifth such store is planned for the Chicago Heights vicinity for late this year or early 1962.

In addition to this concentration in the Chicago vicinity, our plans include a 110,000 square foot store in Baltimore, Maryland, for the fall; an 80,000 square foot store in Kalamazoo, Michigan, late fall; and an 85,000 square foot store in Hartford, Connecticut this summer. Plans have been made for a further acceleration of the store opening program in 1962.

The new stores opened thus far this year and planned for the balance of the year, should add approximately \$30 million to the Company's sales volume.

Although considerable emphasis has been placed on discount operations, progress was also made last year in strengthening the Company's position in the conventional retail field. This objective is being approached via two routes: one, to modernize those



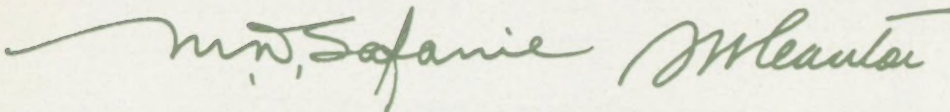
stores which either are, or can become, key stores in their communities; and two, to terminate, when economically feasible, those operations which do not adequately contribute to the Company's earnings or growth and are particularly vulnerable to strong competition. Interstate's planning is based on the conviction that the future holds great promise not only for the discount store but also for the key downtown store which has established a strong franchise for itself through fashion and service.

Continuing the store modernization program initiated five years ago, the construction of a new front for the downtown store in South Bend, Indiana, was completed and plans initiated for an expanded program in the current year entailing an investment of better than \$500,000 in improvements in stores in Huntington, West Virginia, Fond du Lac, Wisconsin, Southgate, Indiana, Fort Wayne, Indiana, Rutland, Vermont, and Jackson, Michigan. In addition, the Company plans to increase to twice its present size the Utica, New York store, which is one of the Company's leading downtown stores.

Several operations were terminated last year. These included small units in Green Bay and West Bend, Wisconsin, and the Anderson, Indiana store, which offered little future promise. Termination of these stores has released funds and energies which are being put to more effective use elsewhere.

The progress made last year with the expansion, modernization, and consolidation programs has resulted in a complex of retail operations which has never in the Company's history been stronger, or with a greater potential for further growth and improved profitability.

For the Board of Directors,

The block contains two handwritten signatures in dark ink. The signature on the left is 'M. D. Safanie' and the signature on the right is 'S. W. Cantor'. Both are written in a cursive, flowing style.

M. D. SAFANIE
Chairman

S. W. CANTOR
President

INTERSTATE,



White Front, Anaheim, Cal.

▲ WHITE FRONT STORES

CALIFORNIA Anaheim
 Los Angeles
 Van Nuys



Family Fair, Louisville, Ky.

◆ FAMILY FAIR STORES

KENTUCKY Louisville
 Louisville—Algonquin Plaza
 Louisville—Hikes Point

OHIO Canton
 Toledo

PENNSYLVANIA Coplay (Discount Fair)



Grand Leader, Fort Wayne, Ind.

■ SUBURBAN STORES

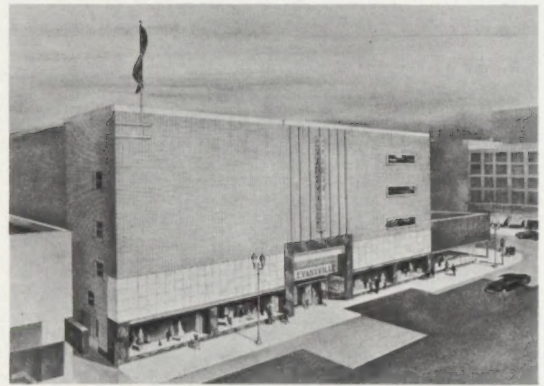
ILLINOIS Rockford Dry Goods, Loves Park

INDIANA The Evansville Store, Lawndale
 Grand Leader, Fort Wayne

MICHIGAN The Fair, Flint

NEW YORK Boston Store, Latham
 Boston Store, Massena

from coast to coast



The Evansville Store, Evansville, Ind.

● DOWNTOWN DEPARTMENT STORES

CONNECTICUT	Stanley's, New Haven
ILLINOIS	Aurora Dry Goods Co., Aurora Carroll House, Belleville Decatur Dry Goods Co., Decatur Peoria Dry Goods Co., Peoria Rockford Dry Goods, Rockford Springfield Dry Goods Co., Springfield Waukegan Dry Goods Co., Waukegan
INDIANA	The Evansville Store, Evansville Grand Leader, Fort Wayne Hill's, Marion Stillman's, Muncie Grand Leader, South Bend Hill's, Vincennes
IOWA	Hill's, Davenport Hill's, Des Moines
KENTUCKY	Paducah Dry Goods Co., Paducah
MICHIGAN	Grand Leader, Battle Creek Stillman's, Jackson Lansing Dry Goods Co., Lansing Carroll House, Port Huron
NEW YORK	Stanley's, Troy Boston Store, Utica
OHIO	The Boston Store, Springfield
PENNSYLVANIA	Carroll House, Williamsport Stillman's, York
SOUTH CAROLINA	Bailes, Anderson
TENNESSEE	The Knox, Knoxville
VERMONT	Economy Department Store, Rutland
VIRGINIA	Carroll House, Staunton
WEST VIRGINIA	The Huntington Store, Huntington
WISCONSIN	Fond du Lac Department Store, Fond du Lac Hill's, Madison Hill's Department Store, Milwaukee Racine Dry Goods Co., Racine Hill's Department Store, Sheboygan



Topps, La Grange, Ill.

★ TOPPS STORES

CONNECTICUT	Berlin Fairfield Hartford Middletown West Haven
ILLINOIS	Chicago—Arlington Heights* Chicago—La Grange* Chicago—Niles
MASSACHUSETTS	Fall River (Kerr Mill Bargain Center) West Springfield
NEW YORK	Albany—Menands
PENNSYLVANIA	Lancaster (Maple Grove Bargain Center)

*Opened in fiscal 1961.

INTERSTATE DEPARTMENT STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated

A S S E T S

	1960 (As at Jan. 31, 1961)		1959 (As at Jan. 31, 1960)	
Current Assets:				
Cash		\$ 1,916,728		\$ 1,353,722
United States Treasury Bills—at cost, plus accrued interest				193,787
Accounts receivable:				
Customers	\$ 6,415,816		\$ 5,952,871	
Less: Reserves	351,715	6,064,101	331,168	5,621,703
Other		1,173,754		554,901
Merchandise inventories (Note B)		15,690,442		12,425,331
Prepaid expenses		691,059		471,950
Fixed assets held for resale		242,209		
Total Current Assets		25,778,293		20,621,394
Other Assets		430,289		172,085
Fixed Assets—at cost (Note C):				
Land, land improvements and buildings	871,578		988,946	
Furniture and equipment	6,111,586		5,337,957	
Leaseholds and leasehold improvements	6,042,284		5,516,136	
	13,025,448		11,843,039	
Less: Reserves for depreciation and amortization	5,326,700	7,698,748	4,967,251	6,875,788
Deferred Charges		266,273		446,278
Intangibles Applicable to Subsidiaries				
Acquired (Note A)		3,381,222		695,568
		<u>\$37,554,825</u>		<u>\$28,811,113</u>

The accompanying Notes to Financial Statements are an integral

Balance Sheet

LIABILITIES

	1960 (As at Jan. 31, 1961)	1959 (As at Jan. 31, 1960)
Current Liabilities:		
Current installments of long-term debt (Note C)	\$ 2,915,011	\$ 1,276,108
Accounts payable—trade	7,879,334	4,206,128
Loans on trust receipts (Note B)	382,498	127,698
Accrued expenses and other liabilities (Note C)	2,122,709	1,400,536
Taxes withheld and accrued, other than Federal income taxes	973,170	812,200
Accrued Federal income taxes (Note D)	\$ 1,343,118	\$ 800,431
Less: United States Treasury Bills —at cost, plus accrued interest ..	499,483 843,635	800,431 —
Total Current Liabilities ..	15,116,357	7,822,670
Deferred Federal Income Taxes	145,000	145,000
Long-term Debt (Note C)	3,336,816	3,749,235
Total Liabilities	18,598,173	11,716,905
Deferred Income—Carrying Charges	38,895	42,860
Stockholders' Equity (Notes A, C, D, E and F)	18,917,757	17,051,348
Lease Commitments and Other Comments (Notes G and H)	\$37,554,825	\$28,811,113

part of this statement and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

	1960 (Year Ended Jan. 31, 1961)	1959 (Year Ended Jan. 31, 1960)
Net sales:		
Owned departments	\$92,209,265	\$76,323,574
Leased departments	22,102,090	13,992,389
	<u>114,311,355</u>	<u>90,315,963</u>
Cost of sales (including certain buying, occupancy and distribution expenses)	90,952,203	70,676,835
	<u>23,359,152</u>	<u>19,639,128</u>
Selling, general and administrative expenses	21,273,240	17,523,302
	<u>2,085,912</u>	<u>2,115,826</u>
Other income—net	557,542	463,682
	<u>2,643,454</u>	<u>2,579,508</u>
Interest expense	268,287	264,444
Net earnings before Federal income taxes	2,375,167	2,315,064
Provision for Federal income taxes (Note D)	895,000	915,000
Net earnings (Notes A and D)	<u>1,480,167</u>	<u>1,400,064</u>
Special item:		
Decrease (increase) in reserve to reduce merchandise inventories at cost as determined on the "last-in, first-out" basis to the lower of cost or market	10,637	(5,762)
Net earnings and special item (Notes A and D)	<u>\$ 1,490,804</u>	<u>\$ 1,394,302</u>

Depreciation and amortization amounting to \$888,935 (1960) and \$808,110 (1959) have been charged to cost of sales, selling, general and administrative expenses and (in 1960) other income—net.

NOTES TO FINANCIAL STATEMENTS

The financial statements as at and for the year ended January 31, 1960, with certain reclassifications, are included for comparative purposes only. Reference should be made to the previously issued report for the Accountants' Report and notes pertaining to those financial statements.

NOTE A—Pursuant to a number of contracts, the Company purchased all the outstanding capital stock and long-term debt of a number of corporations whose principal activities involved the operation of eight retail stores. The aggregate purchase price was 20,000 shares of the Company's Common Stock and \$2,778,000 in cash, of which \$795,000 is payable on July 1, 1961, \$670,000 on November 1, 1961 and \$643,750 on March 1, 1962. The total amount assigned to the aforementioned shares of the Company's stock was credited, in part, to Common Stock (\$20,000) and, in part, to Capital Surplus (\$720,000).

The accompanying consolidated statement of earnings includes the results of operations of six of the aforementioned stores from July 1960, one store from August 1960, and one store from October 1960.

In connection with these acquisitions, the excess of the aggregate costs over the aggregate underlying book equities amounted to \$2,685,654 and is included in the accompanying consolidated balance sheet in the caption "Intangibles Applicable to Subsidiaries Acquired." The Company has not determined at this time its accounting policy with respect to such intangibles.

Subsequent to January 31, 1961, the Company exercised an option to purchase the capital stock of a company operating two retail stores for \$324,000 of which \$162,000 was paid at the closing and \$162,000 is payable on July 1, 1961.

Pursuant to three contracts, the Company has agreed to acquire subsequent to January 31, 1961, leasehold interests for premises upon which stores are to be constructed. The aggregate purchase price is \$558,500, payable \$130,000 on July 1, 1961, \$308,500 on November 1, 1961 and \$120,000 on February 1, 1962.

NOTE B—Merchandise inventories are stated at the lower of cost or market based principally, as to inventories at stores, upon the retail method; the cost of approximately 25% of the inventories is determined by the last-in, first-out method. At January 31, 1961, merchandise inventories in the approximate amount of \$400,000 are subject to loans on trust receipts.

NOTE C—Long-term debt consists of the following:

	Total	Portion Payable Within One Year	Portion Payable After One Year
Amounts due for purchase of subsidiaries (Note A)	\$2,108,750	\$1,465,000	\$ 643,750
5% Notes payable to banks, due in aggregate annual installments of \$840,000 in 1961 and 1962	1,680,000	840,000	840,000
Notes payable to an insurance company in the amounts of \$1,200,000 and \$480,000 due in annual installments as follows: on the first note, \$350,000 in 1961 and 1962 and \$500,000 in 1963; on the second note, \$65,000 from 1961 through 1966, inclusive, and \$90,000 in 1967	1,680,000	415,000	1,265,000
6% Note payable to bank, due in monthly installments (including interest) of \$2,221 to February 1, 1971	200,000	13,766	186,234

INTERSTATE DEPARTMENT STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Statement of Stockholders' Equity

	1960 (Year Ended Jan. 31, 1961)	1959 (Year Ended Jan. 31, 1960)
Earnings Retained for Use in the Business as at beginning of year	\$12,315,549	\$11,671,290
Net earnings and special item (Notes A and D)	1,490,804	1,394,302
	<u>13,806,353</u>	<u>13,065,592</u>
Dividends declared (Note E)	1,341,991	750,043
Earnings Retained for Use in the Business as at end of year	<u>12,464,362</u>	<u>12,315,549</u>
Capital Surplus (Notes A, E and F)	4,877,889	3,202,382
Common Stock (stated at par value of \$1 per share, plus \$1,271,306 retained as Capital by resolution of the Board of Directors)		
	<u>1,664,776</u>	<u>1,622,687</u>
	<u>19,007,027</u>	<u>17,140,618</u>
	89,270	89,270
	<u>\$18,917,757</u>	<u>\$17,051,348</u>

	Shares	
	1960	1959
Authorized (Note E) ...	500,000	500,000
Issued (Notes A and F)	<u>375,624</u>	<u>342,001</u>
To be issued (Note E) ..	17,846	9,380
	<u>393,470</u>	<u>351,381</u>

Less—Treasury stock—2,846 shares—at cost

Stockholders' Equity (Note C)

	Total	Portion Pay- able Within One Year	Portion Pay- able After One Year
Mortgages and trust-deed notes payable	362,919	21,857	341,062
Other	220,158	159,388	60,770
	<u>\$6,251,827</u>	<u>\$2,915,011</u>	<u>\$3,336,816</u>

The loan agreements with the banks (relating to the 5% notes) and the insurance company contain, among other things, covenants restricting the right of the Company to declare dividends (other than stock dividends). Under the most restrictive of these covenants (as amended subsequent to January 31, 1961), which requires the Company to maintain certain amounts of consolidated working capital, approximately \$2,400,000 of consolidated earnings retained for use in the business is available for the payment of dividends as at January 31, 1961.

The mortgages and trust-deed notes payable set forth above and mortgages and equipment purchase contracts payable (\$399,375) included in the caption "Accrued expenses and other liabilities" in the accompanying consolidated balance sheet are collateralized by fixed assets having an aggregate depreciated cost of approximately \$1,200,000 as at January 31, 1961.

NOTE D—The provision for Federal taxes on income has been reduced by approximately \$65,000, resulting from the utilization of pre-acquisition operating losses of certain companies acquired during the year. See Note A.

The accompanying financial statements are subject to final determination of Federal, state and local taxes.

NOTE E—Dividends declared as shown in the accompanying consolidated statement of stockholders' equity consist of cash dividends of \$425,515 and, based upon market quotation, a five percent stock dividend of \$916,476 of which \$38,988 is payable in cash in lieu of fractional shares. The aggregate par value (\$17,846) of the shares issuable in connection with such stock dividend has been credited to Common Stock and the balance (\$859,642) has been credited to Capital Surplus.

Subsequent to January 31, 1961, the Board of Directors proposed (subject to approval of stockholders) an increase in the authorized number of shares of Common Stock to 3,000,000 shares and, subject to approval of the foregoing, authorized a three-for-one stock split to be effected in the form of a stock dividend.

NOTE F—During the year, an option was exercised for the purchase of 4,243 shares of the Company's Common Stock at \$22.27 a share resulting in credits to Common Stock of \$4,243 and to Capital Surplus of \$90,282. The Company's stock option plan expired December 31, 1960.

There is also credited to Capital Surplus \$5,583 relating to the sale of Common Stock by a stockholder.

NOTE G—At January 31, 1961, the minimum annual rentals of real and personal property leased to the Company or to its subsidiaries under 80 leases expiring after January 31, 1964, amount to approximately \$2,800,000 plus, in certain instances, real estate taxes, insurance, etc.

NOTE H—An employment contract provides, under certain conditions, for payments to the Company's president during each of ten years subsequent to termination of his employment of an amount equal to the aggregate of \$6,000 plus \$2,500 multiplied by the number of years of his employment from February 1, 1959, through January 31, 1963.

Accountants' Report

To the Board of Directors

INTERSTATE DEPARTMENT STORES, INC.
New York, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc., and subsidiary companies as at January 31, 1961, and the related consolidated statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity, together with the notes to financial statements, present fairly the consolidated financial position of Interstate Department Stores, Inc., and subsidiary companies at January 31, 1961, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.
Certified Public Accountants

New York, N. Y.
April 24, 1961

10 Year Comparative Operating Statistics

(in thousands of dollars)

Years Ended January 31,	SALES			NET INCOME		Earnings Per Share*	Cash Dividends Per Share*	Stockholders' Equity Per Share*
	Total	Owned Departments	Leased Departments	Before Fed. Inc. Tax	After Fed. Inc. Tax			
1961	\$114,311	\$92,209	\$22,102	\$2,375	\$1,490	\$4.13	\$1.20	\$50.75
1960	90,315	76,323	13,992	2,315	1,394	4.02	1.16	48.92
1959	65,674	58,180	7,494	987	645	1.94	.87	46.93
1958	66,653	59,408	7,245	1,623	1,040	3.13	2.36	45.92
1957	67,184	60,086	7,098	2,131	1,323	3.97	2.36	45.16
1956	66,359	59,062	7,297	2,348	1,360	4.16	2.36	43.69
1955	62,902	55,511	7,391	1,980	1,078	3.31	2.36	41.99
1954	63,865	56,317	7,548	1,829	1,032	3.17	2.36	41.04
1953	64,758	56,900	7,858	2,198	1,188	3.65	2.36	40.23
1952	64,853	56,511	8,342	2,319	1,293	3.97	2.36	38.98

* Adjusted to give effect to all stock dividends distributed through January 31, 1961.

INTERSTATE DEPARTMENT STORES, INC.

Executive and General Offices: 111 Eighth Avenue, New York, N. Y.

DIRECTORS

Samuel J. Abend	Albert Parker
Sol W. Cantor	Paul D. Preger
Charles E. Federman	Murray D. Safanie
Barry Golden	George H. Stuntz
Emanuel P. Lewis	Harold J. Szold

OFFICERS

Murray D. Safanie <i>Chairman of the Board</i>	Barry Golden <i>Vice President</i>
Sol W. Cantor <i>President</i>	George H. Stuntz <i>Treasurer</i>
Samuel J. Abend <i>Vice President</i>	Albert Parker <i>Secretary</i>
Edward C. Schenkel <i>Assistant Treasurer and Assistant Secretary</i>	

TRANSFER AGENT:	The Chase Manhattan Bank, N. Y.
REGISTRAR:	Manufacturers Trust Company, N. Y.
GENERAL COUNSEL:	Parker, Chapin and Flattau, N. Y.
PUBLIC ACCOUNTANTS:	S. D. Leidesdorf & Co., N. Y.
SHARES LISTED:	New York Stock Exchange
ANNUAL MEETING:	Fourth Wednesday in May

